

Message Text

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TAGS: ECON, ELAB, CA

SUBJ: FINANCE MINISTER MACDONALD COMMENTS ON ECONOMY AND PRO-
MISES JOB-CREATION PROGRAMS

REF: OTTAWA 4622

BEGIN UNCLASSIFIED

1. SUMMARY: FINMIN MACDONALD TOLD PARLIAMENT ON
NOVEMBER 19 THAT REAL GROWTH IN ECONOMY FOR 1976
WOULD BE LESS THAN 5 PERCENT, THAT PRESENT
UNEMPLOYMENT RATE OF 7.6 PERCENT WAS HIGHER THAN GOC
EXPECTED, THAT FEDERAL FINANCING REQUIREMENTS WOULD
RISE TO OVER C\$5 BILLION FROM C\$4.5 BILLION FORECAST IN
MAY BUDGET AND THAT GOC WOULD HOLD TO ITS SPENDING
PLANS OF C\$42.15 BILLION FOR FISCAL YEAR. MACDONALD
ALSO SAID THAT MINISTER OF MANPOWER AND IMMIGRATION
WOULD SHORTLY ANNOUNCE NEW JOB-CREATION PROGRAMS.
END SUMMARY.

2. FINMIN MACDONALD HAD PROMISED TO REVIEW STATE OF
CANADA'S ECONOMY AT NOVEMBER 19 SECOND READING OF
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AMENDMENT TO INCOME TAX ACT IN PARLIAMENT. AFTER

RECITING PROGRESS OF LOWERED INFLATION RATES IN CANADA OVER PAST YEAR OF CONTROLS, MACDONALD REVISED DOWNWARD HIS FORECAST FOR REAL GROWTH IN ECONOMY FOR 1976 AND EXPRESSED CONCERN ABOUT HIGH LEVEL OF UNEMPLOYMENT.

3. USING CPI AS INFLATIONARY GUIDE, MACDONALD POINTED TO YEAR-OVER-YEAR INCREASE OF 6.2 PERCENT IN OCTOBER CPI AS EVIDENCE THAT GOC POLICY WAS WORKING. HOWEVER, HE DID NOT THINK THAT LOWER FOOD PRICES WOULD CONTINUE INTO NEXT 12 MONTH PERIOD AND THAT INFLATIONARY "DANGER" WAS STILL PRESENT IN CANADA WITH COSTS RISING FASTER HERE THAN IN U.S.

4. AS TO ECONOMY AS A WHOLE, MACDONALD FORECAST A "SMALL SHORTFALL" FROM 5 PERCENT REAL GROWTH HE "ANTICIPATED" WITH PRESENTATION OF MAY BUDGET. SINCE THIRD QUARTER FIGURES WERE NOT YET AVAILABLE, HE SAID HE COULD NOT MAKE PREDICTION ON REAL GROWTH "IN THE SEVERAL QUARTERS AHEAD."

5. ON UNEMPLOYMENT , MACDONALD STATED RATE WOULD AVERAGE HIGHER THAN 7.2 PERCENT INDICAED IN MAY BUDGET. WITH 7.6 PERCENT RATE (SEASONALLY ADJUSTED) REGISTEREDAEN OCTOBER, "UNEMPLOYMENT SITUATION (IS) UNDER THE CLOSEST ATTENTION." MACDONALD SAID HE AND HIS CABINET COLLEAGUES ARE PARTICULARLY CONCERNED ABOUT HIGH UNEMPLOYMENT RATES AMONG 17 TO 24-YEAR OLDS AND IN ATLANTIC PROVINCES AND QUEBEC.

6. MACDONALD REFERRED TO SLOWER "TEMPO OF EXPANSION" NOT ONLY IN CANADA BUT ALSO IN U.S. AND OTHER OECD COUNTRIES, AND CLAIMED "WRITERS ON EDITORIAL PAGES AND ECONOMIC COMMENTATORS" HAVE NOW SUGGESTED THAT U.S., JAPAN AND OTHER MAJOR EC COUNTRIES TAKE MORE STIMULATIVE MEASURES.

7. OTHER AREAS OF CONCERN TO HIM, MACDONALD SAID, WERE (1) CURRENT ACCOUNT DEFICITS AND (B) CAPITAL INVESTMENTS. HE OFFERED NO SOLUTIONS TO SOLVING LIMITED OFFICIAL USE

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PROBLEM OF GROWING SERVICE PAYMENTS AND LACKCLUSTER INVESTMENT INTENTIONS; HE MERELY "OBSERVED" THAT IN OECD COUNTRIES AS A WHOLE, "INVESTMENT WAS NOT OCCURRING AS RAPIDLY AS HAD OCCURRED IN PAST CYCLES."

8. MACDONALD CLAIMED THAT "WE CAN MEET OUR TARGET AS SET OUT AT THE TIME OF THE BUDGET IN TOTAL

(FEDERAL) OUTLAYS THIS YEAR OF C\$42,150 MILLION. INDEED, WE FEEL WE HAVE WON SOME ROOM FOR FLEXIBILITY IN TERMS OF OUR SPENDING PROGRAMS." THEREFORE, MACDONALD SAID, GOC CAN "REDIRECT" SOME FISCAL RESOURCES TO AREAS OF CONCERN; E.G., REGIONAL UNEMPLOYMENT AND UNEMPLOYMENT "AMONG CERTAIN CONSTITUENT GROUPS IN THE WORK FORCE."

9. MINISTER OF MANPOWER AND IMMIGRATION BUD CULLEN WILL BE ANNOUNCING SHORTLY ("WITHIN THE NEXT TEN DAYS OR SO") "SOME REDIRECTION OF SPENDING IN RELATION TO UNEMPLOYMENT PROGRAMS." PROGRAMS WOULD BE TARGETED TO "START PRODUCING AN IMPACT ON UNEMPLOYMENT RIGHT AWAY THIS WINTER."

10. SLOWER RATE OF GROWTH THAN ANTICIPATED, MACDONALD MAINTAINED, HAD RESULTED IN LOWER GROWTH IN GOVERNMENT REVENUES AND THEREFORE FEDERAL FINANCIAL REQUIREMENT FOR FISCAL YEAR WOULD BE "A LITTLE OVER C\$5 BILLION," COMPARED TO MAY BUDGET FORECAST OF C\$4.5 BILLION.

11. MACDONALD THEN DISCUSSED "POTENTIAL INCREASE IN PRICE BY OPEC COUNTRIES FOR CRUDE OIL SOLD ABROAD." CANADA AND OTHER INDUSTRIALIZED COUNTRIES "HAVE SHOWN A CAPACITY TO PROTECT OURSELVES SUBSTANTIALLY FROM THE IMPACT OF AN OIL PRICE INCREASE." HOWEVER, IT WOULD INVOLVE SLOWER ECONOMIC GROWTH AND RECOVERY FROM RECESSION. NON-OIL PRODUCING LDC'S WOULD BE MOST AFFECTED, MACDONALD CLAIMED, SINCE OIL PRICE INCREASE "PUSHES THEM VERY CLOSE TO THE EDGE OF SURVIVAL IN TERMS OF THE STATE OF THEIR ECONOMY." "A RESTRAINT ON OIL PRICE INCREASES WOULD BE A WISE COUNSEL FOR LIMITED OFFICIAL USE

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THE OPEC COUNTRIES AT THIS TIME."

12. MACDONALD ENDED BY SAYING THAT GOC "WOULD NOT HESITATE TO MAKE WHATEVER MID-COURSE DIRECTIONS SEEM APPROPRIATE" FOR CANADIAN ECONOMY, BUT ESSENTIAL CONDITION FOR RESTORING HEALTH OF THE CANADIAN ECONOMY IS CONTINUED SUCCESS ON THE ANTI-INFLATION FRONT. END UNCLASSIFIED

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13. COMMENT: GOC HAD HOPED FOR CONTINUED UPTURN IN AECONOMIES OF CANADA'S TRADING PARTNERS, PARTICULARLY U.S., TO PROVIDE NECESSARY STIMULANT TO CANADIAN ECONOMY WHILE GOC CONCENTRATED ON ANTI-INFLATION

PROGRAM. WITH UPTURN LESS THAN ANTICIPATED IN THOSE COUNTRIES AND GROWING UNEMPLOYMENT HERE, GOC CAME UNDER INCREASING POLITICAL PRESSURE TO DO SOMETHING TO STIMULATE ECONOMY AND REDUCE UNEMPLOYMENT. MACDONALD'S SPEECH INDICATES THAT FOR IMMEDIATE FUTURE, GOC HAS DECIDED NOT TO EASE UP ON FISCAL RESTRAINTS BUT AT LEAST TRY SOME NEW JOB-CREATION PROGRAMS. IT WILL BE INTERESTING TO SEE WHAT FEDERAL DEPARTMENTS WILL BE REQUIRED TO DO ADDITIONAL TIGHTENING IN ORDER TO "REDIRECT" MONIES TO JOBS.

14. BANK OF CANADA ANNOUNCED SAME DAY AS MACDONALD'S SPEECH IN PARLIAMENT THAT IT WAS EASING SLIGHTLY MONETARY POLICY (SEE REFTEL), BUT BOTH SPEECH AND BANK ACTION SHOW FEDERAL AUTHORITIES STILL UNWILLING TO PROVIDE MUCH STIMULUS TO ECONOMY FOR FEAR OF SETTING OFF NEW INFLATIONARY PRESSURES. MACDONALD'S REMARKS (ESPECIALLY THOSE ON EASING RESTRAINTS IN U.S. AND OTHER "MAJOR" COUNTRIES) IMPLY THAT HE STILL EXPECTS INCREASED ECONOMIC ACTIVITY ABROAD WILL EVENTUALLY PROMOTE CANADIAN ECONOMIC GROWTH. IN MEANTIME, GOC WILL ATTEMPT TACKLE POLITICAL PROBLEM OF UNEMPLOYMENT AND STICK TO ITS GAME PLAN ON INFLATION.
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